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From Cross-Border Trade to Regional Integration?

Dr. K.A.S. Murshid Provides an Overview of the Cross-Border Economies of Cambodia, Laos, Vietnam and Thailand *

The Development Analysis Network (DAN) is a network of research institutes from four countries of the Greater Mekong Subregion—Cambodia, Laos, Thailand and Vietnam (CLTV), which is now in its sixth year of operation. This study examines the cross-border economies of the participating countries of DAN, in line with the stipulation of the sponsors that the network focus on an issue or theme of relevance to all participating countries.

Cargo transshipping into Cambodia at a checkpoint on the Cambodia-Vietnam border.

The Importance of the Cross-Border Economy

The CLTV neighbourhood is one of the fastest growing subregions in the world. Growth rates experienced by the countries of the region have been consistently above 4 percent for the past decade (with the exception of Thailand, which suffered heavily from the Asian financial crisis). GDP growth of all four economies was strong in 2002, ranging from 5.5 percent in Cambodia to 7 percent in Vietnam. In general, the momentum was maintained in 2003 despite the impact of severe acute respiratory syndrome (SARS) and the war in Iraq, three of the four countries registering a growth rate of 6 percent or above. A number of factors are thought to be responsible for this success: strong consumer spending, good agricultural performance, higher export levels and appropriate fiscal stimuli in some economies.[1]

In this region of rapid change, two major economies are aggressively pursuing regional and global integration. Thailand is already well advanced in that endeavour, and Vietnam has made major steps in that direction but still has a long way to go. The region is close to China—a fact that is viewed with interest and some trepidation. The sub-region is also close to major economies like Malaysia and Indonesia, which expect very large gains from economic cooperation through broadening and deepening of markets, transfer of skills, ideas and technology and FDI flows. The CLTV countries are committed to regionalism and globalisation, and are keenly aware of the need to construct efficient, competitive market economies on the basis of their dynamic comparative advantages.

* This article is based on the fourth publication of the Development Analysis Network (DAN), which contains contributions from leading development research institutes in Cambodia, Laos, Thailand and Vietnam. The network and its research are generously supported by the Rockfeller Foundation.

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Table 1: Selected Development Indicators for CLTV Countries

Indicator	Cambodia	Laos	Thailand	Vietnam
GDP growth (average, 1999–2003)	6.3	6.1	4.5	6.0
Human Development Index, 2001	0.556	0.525	0.768	0.688
Poverty (head count, %)				
Rural	40.0	41.0	17.2	36.0
Urban	25.2	26.9	1.5	6.6
Openness Ratio				
1998	64.3	62.5	80.0	72.4
2002	101.8	40.9	98.1	103.9
Share of intra-regional in total trade, 2002	24.5	67.8	8.9	13.9

Source: Reproduced from ADB (2004)
Notes: Poverty data for Cambodia refer to 1999, for Thailand 2000, for Vietnam 2002 and Laos 1996–97. Intra-regional trade refers to trade with the Greater Mekong Sub-region (GMS), which includes Cambodia, Thailand, Laos, Vietnam, Yunan and Myanmar.

Trade Policy and Trade Reforms

Thailand

Thailand can be viewed as the gateway to this sub-region, having the largest and most developed market and being an important source of technology, knowledge and capital. Thailand has an open economy, its trade (as a percentage of GDP) exceeding 100 percent in 2004 (compared to 66 percent in 1992).[2] The Thai strategy has been characterised as "open regionalism," in which a free and open trade and investment regime is sought to be developed by 2020, through a network of bilateral preferential trading arrangements.[3]

Thailand's economic interest in its neighbours stems from a number of policy directions that it has set for itself.

Thailand is certainly interested in greater market access for its exports, especially of processed goods. It is keenly interested in developing market clusters in which neighbouring markets are closely linked to Thai raw materials, technology and investments. It is also aware of the increasing need to be able to shift sunset industries to lower cost centres. It is positioning itself as a regional economic hub, at the centre of a dynamic region grouping Indonesia, Malaysia and Vietnam.

Thailand has an AISP (ASEAN Integration System of Preferences) agreement with Cambodia and Laos. Under this agreement, 48 items are eligible to be imported from Cambodia (as of 2001) and 152 from Laos (as of 2004). The AISP has been an initiative to provide benefits to new members of ASEAN to speed up their integration with the original members. This involves the ASEAN original six granting tariff-free imports for selected products from beneficiary countries.

Thailand is well advanced in putting in place the necessary architecture of free and open cross-border trade, although the reality on the ground is changing only slowly, with implementation lagging behind.

Vietnam

Vietnam is a relatively new entrant to the world of open markets and export-led growth policies. Two major events helped shape Vietnam's thrust in this direction: (a) *doi moi* in the 1980s, followed by membership of ASEAN, the ASEAN Free Trade Area (AFTA) and APEC; (b) stabilisation of foreign political relations, with China as well as with the west, after years of conflict and isolation. An unprecedented era of trade/economic liberalisation was introduced that served to generate rapid growth, huge FDI inflows and a sharp reduction in poverty.

Vietnam is keen to develop border trade as a vehicle towards greater regional integration and as preparation for WTO membership. Unlike Thailand, it has not initiated many free trade or bilateral trade agreements. It did sign a bilateral trade agreement with the USA in 2001, helping it to rapidly expand exports to that country.

Perhaps its boldest move towards a border trade policy was to pilot a border trade or special economic zone along the border with China, at Mong Cai. The experiment was carefully designed to provide the right mix of incentives and opportunities. These included (a) autonomy for local authorities to manage cross-border trade activities; (b) preferential treatment, allowing re-exports and transit trade and providing infrastructure and facilities; (c) tourism facilitation, e.g. through simplification of visa procedures; (d) fiscal decentralisation and (e) generous tax and duty incentives.

Overall, Vietnam is keen to pursue cross-border trade opportunities to exploit comparative advantage, identify new channels for trade expansion and improve living standards of border inhabitants.

Cambodia

Economic liberalisation in Cambodia began gradually from the late 1980s–early 1990s, with the ending of the state monopoly on foreign trade, enactment of a foreign investment law, the lifting of quantitative restrictions on imports and abolition of licensing requirements for trade. In the late 1990s, Cambodia joined ASEAN and became a member of the AFTA. In 2001, the tariff structure was reorganised with the introduction of a four-tier tariff band, ranging from 7 to 70 percent. In addition, a generous package of incentives was put together, which appears highly competitive compared with other regional countries. Further, wide-ranging reforms are envisaged under the 2003–08 programme to reform and modernise the customs and excise department.

Cambodia is beginning to wake up to the realities implied by WTO accession. It does not have as clear and vigorous a policy to promote cross-border trade as do Thailand and Vietnam. Nor has much investment gone into the establishment of border economic zones. Cross-border trade for Cambodia remains low key, informal or semi-formal. However, confronted with the imminent end of the Multi-Fibre Agreement (MFA), Cambodia is keenly aware of the need to diversify into new markets. It is thus looking eagerly to its neighbours. In many ways, it has forged ahead at a faster pace in putting legislative and policy frameworks in place (compared to Laos and Vietnam), and in articulating policy and reform needs. The next step is to begin implementation of the reform agenda to create a competitive, pro-trade environment.

Laos

Laos is unique amongst the four countries. As a land-locked country, for Laos, cross-border trade is synonymous with foreign trade and is thus vital to its economy.

Like Vietnam and Cambodia, Laos is a transitional economy, grappling with the problem of moving towards a market-driven (as opposed to a centrally planned) economy. In this context, a number of important steps have been taken.

In 1986 the government adopted a relatively comprehensive reform programme called the New Economic Mechanism (NEM), aimed at achieving a transition from a command economy to a market-driven one, and from subsistence production to a more advanced, private-sector-led agriculture, under the guidance of the government. The NEM was the first formal step to pave the way towards economic liberalisation. Laos joined ASEAN and the AFTA in 1997 and in 2000 established a joint trade committee with Thailand. Laos operates a total of 75 border checkpoints and has established two border economic zones (BEZ).

The study reveals problems with arbitrary exercise of power by local authorities, e.g. in setting duties and taxes, making it difficult to predict these costs. The study also points to the problem of a poor banking infrastructure, high bank charges and severe currency instability involved in cross-border trade, making it expensive and risky.

The Lao experience with BEZ is in sharp contrast with that of Vietnam. There are many problems faced on the Lao side, including inadequate infrastructure and a weak governance and regulatory regime. A possible solution would be to develop infrastructure and services under a joint/harmonised management structure, encompassing a BEZ that straddles both countries. Such an approach would prevent the bulk of the gains of cross-border trade being appropriated by the more developed partner—a situation that is inevitable if matters are left entirely to market forces.

Laos is well aware of its strategic location bordering Myanmar, Cambodia, Vietnam, Thailand and China and the role it can play to integrate these economies through transit trade and investments. It has sought and has been assured of a number of facilities or measures by Thailand (e.g. transit facilities for Lao goods), provisions for agricultural exports and investments in cross-border infrastructure (e.g. warehouses and silos) and a bilateral payment agreement. However, many of these agreements remain unimplemented (by Thailand). The main limitation on the Lao side is not so much policy but lack of investment, poor bargaining power and poor governance.

Structure, Conduct, Performance of Cross-Border Trade

The country case studies point to two broad trade circuits or flows for cross-border trade in all four countries: informal and more formal flows.

Informal flows

These involve many small or petty traders using small amounts of capital and dealing in low-volume and usually low-value products for sale in local markets within the border zone. Frequently these traders combine different roles as independent actors or as subordinate traders working for larger traders. In the former role they invest their own or borrowed capital to buy, transport and sell to larger traders. As dependent traders they generally operate on behalf of bigger traders, typically with borrowed capital and with the stipulation that they must sell their entire consignment to the trader to whom they are indebted. In all of the border zones, the number of such small/petty traders is large, although the total volume of goods that they account for is a relatively small fraction of total trade (20–30 percent).

Very few formal mechanisms or rules affect this flow, which is either approved by law or tolerated. Usually small payments have to be made at the border. Key elements frequently associated with these informal flows include dependence on personalised relationships that have evolved over time and are sustained by repeated transactions between traders or between traders and customers. The rapid growth of the Thai-Cambodian garments processing and trading system is an excellent example of how informal arrangements based on simple incentive mechanisms (for example, repeated transactions that enable credit relations to develop and promote trust) can generate large and complex exchange systems cutting across international frontiers.

The informal sector has strong implications for anti-poverty policy and distribution of the gains from trade. It can be huge, generating work and income for myriads of small traders, processors, artisans, transport workers and so on. However, as border trade develops and becomes more formal, enterprises become larger, more complex and more competitive, often crowding out the smaller firms or individual operators. Generally, Cambodian and Lao border trade remains overwhelmingly informal and dominated by small traders. The experience on the Vietnamese border, and even more so on the Thai border, suggests that this crowding out is well under way.

Formal flows

Formal trading channels account for the bulk of cross-border trade volume, some 70–80 percent of the total. These flows are formal in the sense of being recorded—requiring paper work, appropriate documentation and processing. Frequently, even these formal flows include an informal component, in terms of under-invoicing, tax evasion, partial payments and partial recording. Thus the border trade data, e.g. from the Thai and the Cambodian sides, are often difficult to reconcile. Table 2 dramatically describes the sharp discrepancy in the official trade data between the two countries. Similarly, a comparison with the Vietnamese and Cambodia data also throws up significant discrepancies, although these are not as dramatic.

The formal flows tend to be dominated by big traders, who are able to mobilise large amounts of capital. These traders provide multiple services, including transport, payments, clearing and forwarding, handling and storage. In addition, they have excellent networking with border trade officials, including customs and immigration. In fact, there is a distinct impression that, in some cases at least, border trade is closely controlled by a small number of powerful intermediaries acting in collusion with border authorities and able to restrict entry.

Table 2: An Estimate of Underreporting of Trade (Thailand and Cambodia— US$ million)

Year	Trade Volume (Thai data)	Trade Volume (Cambodian data)	Underreporting by Cambodia (%)
1999	369.2	NA	
2000	359.0	245	46.5
2001	481.3	236	104.0
2002	527.4	246	114.4
2003	697.6	235	196.9
Total	2434.5	962	153.2

Source: Ministries of Commerce of Thailand and Cambodia

Thus cross-border trade involves not only economic intermediation, i.e. buying and selling in response to market demand and supply, but also, crucially, the ability of powerful trade lobbies to bypass or subvert local rules/ authorities to maximise their gains. The other side of the coin is the ability of these intermediaries to assume multiple tasks—a kind of one-stop service for importers/ exporters frequently based in cities. In other words, the formal sector would appear to have strong non-formal characteristics as well, making bipolar categories such as formal-informal not always meaningful. The clearest example of "oligopolistic control" emerged from the Cambodian study, but this is certainly not an isolated Cambodian phenomenon.

Welfare Impact

Cambodia

The economically active populations along the border with Thailand are heavily dependent on cross-border activities—garment activities, trade, transport, construction and services. There is also a significant seasonal movement of agricultural labour to Thailand. The poverty reduction impacts of these activities are likely to be considerable. The impact along the Vietnamese border (e.g. in Bavet) is much more muted but nevertheless positive.

Much of the direct impact of cross-border economic exchanges (CBE) occurs through the labour market. In seven villages (out of 20 surveyed) along the border with Thailand, cross-border labour market activity was found to be very high, with another four reporting quite significant links with CBE. In Chantrea district along the border with Vietnam, important labour market links were identified in half of the villages surveyed, while the rest reported little impact. Other benefits reported from Chantrea relate to the availability of cheap imports from Vietnam (farm inputs, agricultural machinery and food).

Laos

The Lao report also suggests that the CBE impact along the borders with Thailand and Vietnam is positive. It attributes generally higher agricultural yields along the Thai border to easier access to Thai technology and inputs. It also notes the availability of cheap consumer goods from Vietnam. In general, the increased market access to neighbouring countries does not appear to have resulted in a significant increase in supply, exports of goods and services or employment and earnings—largely due to human resources, infrastructure and investment constraints.

Vietnam

In Vietnam, participation in the cross-border economy "has proved to be an appropriate way for people to escape poverty." This is clearly brought out by the significant differences in living standards between participants and non-participants in CBE that the study reports. Indeed, the government is so encouraged by its success with BEZ that it has decided to replicate the model across 19 provinces and 24 border points all over the country—particularly targeting remote, backward areas and ethnic minorities, in a deliberate effort to reduce pockets of poverty and disadvantage.

Thailand

At the village and household level, living standards have reportedly risen over the past five years. Clearly, there has been some impact of the cross-border economy as households residing within five kilometres of the checkpoint, e.g. at Poipet-Talat Rong Kluea, are generally found to have higher income and consumption levels. The direct benefits, however, appear to occur mainly along the major communication arteries, through the labour market and the services sector (hotels, restaurants, guest houses).

In summary, this study finds greater levels of economic activity along some borders (e.g. Poipet) and in some countries (e.g. Vietnam). The Vietnam experience with its BEZ in Mong Cai (on the Chinese border) has been excellent. The experience on the Vietnam side of the Lao-Vietnamese border has also been very good. Similarly, the Poipet area in Cambodia reports very positive impact, while the impact in the Bavet area (on the Vietnamese border) seems rather small.

Generally, direct benefits are limited, often confined to the areas along the major communication arteries. On the other hand, the impact of the BEZ tends to be much greater. Indirect effects, however, appear to be large, mainly through higher consumption levels and increased real incomes (due to the availability of cheaper imports).

Conclusion

The more advanced countries are clearly better poised to gain from cross-border trade. Such trade is vital for Laos and increasingly important for Cambodia, especially in adjusting to the post-MFA world of quota-free trade in garments. However, Laos and Cambodia lag far behind in terms of a clear, implementable policy, i.e. in moving quickly towards establishing the basic legal, physical and institutional infrastructure necessary—despite many policy pronouncements to that end.

Endnotes

1. See Asian Development Bank (2004), T*he Mekong Region, an Economic Overview.*
2. It is interesting if curious to note that Cambodia and Vietnam are more open than Thailand (Table 1).
3. Open regionalism implies that trade concessions provided in bilateral agreements would also be available to others in the region, e.g. ASEAN members.

The Impacts of International Integration on MSME Development: The Case of Cambodia

Tong Kimsun, Research Associate at CDRI, Provides an Overview of MSME Development in the Context of Globalisation.*

Introduction

Micro, small and medium enterprises (MSMEs) play an important role in job creation and income generation, directly contributing to poverty alleviation. As a result of the integration of the Cambodian economy into regional and world economies (ASEAN and WTO), MSMEs appear to face strong competitive pressure. No studies appear to have been conducted on this subject for Cambodia, so the effects of international integration on MSME development remain unclear.

The main purpose of the present study is to provide an overview of MSME development in the context of globalisation at three different levels: (a) national—the linkage between exports/imports and MSMEs, mainly focusing on three main commodities (garments, rice and fish), the business environment and financial services; (b) industry—business associations and marketing linkages, in particular the use of contract farming; and (c) enterprise—skills training and entrepreneurship development. The conclusions of the study cannot be generalised, since the case studies used are unable to present an overall picture of the MSME sector in either rural or urban areas. However, it is hoped that this paper will give some background and guidance on future research into this topic.

Current Situation of Micro, Small and Medium Enterprises in Cambodia

The growth rate of Cambodia's gross domestic product during the period 1990–1996 was around 7 percent per year, and an average of 5.4 percent during 1997–2003. The slower growth in 1997–2003 was largely a reflection of the Asian financial crisis, political conflict in Cambodia in 1997, the terrorist attacks in the United States on 11 September 2001, the anti-Thai riots in Phnom Penh in early 2003 and the outbreak of SARS across the region. Along with the economic deceleration in recent years, the main components of GDP have been altered significantly, except for the service sector remaining constant at around 35–36 percent of GDP during this period. Thus, agriculture accounted for 37.2 percent of GDP in 2003, down from 47.1 percent in 1998. The industrial sector has grown from 17.9 percent of GDP in 1998 to 26.8 percent in 2003. Of this, manufacturing, which accounted for 13.8 percent of GDP in 1998, rose to 19.3 percent in 2003. The total number of micro, small and medium enterprises in 2001 was 27,201 while there were only 274 large enterprises. The share of MSMEs in GDP is approximately 8.3 percent, far lower than in other countries of the region, where they account for 20–25 percent (Hing, 2003).

Trade Liberalisation

In the late 1980s, Cambodia began market-oriented liberalisation. As a result, the state monopoly on foreign trade was abolished in 1987, and a foreign investment law was promulgated in 1989 enabling private companies to engage in foreign trade. In the early 1990s, trade policies were greatly liberalised and most quantitative restrictions and licensing requirements eliminated. In the late 1990s, Cambodia moved towards a highly liberal trade regime by integrating into both regional and global economies.

Since it became the 10th member of ASEAN in April 1999, Cambodia has committed to gradually reducing most tariff rates on goods from other ASEAN members to below 5 percent by 2010, and the remaining tariff lines (which are mostly sensitive agricultural products) by 2015, within the framework of the Common Effective Preferential Tariff (CEPT) agreement. The CEPT covers a broad range of items, including manufactured and agricultural goods, i.e. finished goods, intermediate goods and raw materials. As a result of the tariff reform, the number of tariff bands was reduced from 12 to four, with the maximum tariff rate falling from 120 percent to 35 percent in April 2001. Further tariff reductions will be implemented following Cambodia's full membership of the World Trade Organisation (WTO).

National Level

Linkage between Exports and MSMEs

In line with a jump in the export-GDP ratio (17.8 percent in 1994 to 47.8 percent in 2003), the export structure also changed remarkably during the period 1994–2001. The proportion of domestic exports in total exports rose[1] significantly, from 53.5 percent in 1994 to 87.2 percent in 2001. In contrast, the share of re-exports dropped from 46.5 percent to 12.8 percent during the same period. After 1995 there was significant growth in the garment sector, due mainly to most favored nation (MFN) status and the generalized system of preferences (GSP) agreement. Consequently, the share of garments in total exports increased sharply, from 0.4 percent in 1994 to 83 percent in 2001.

The value added in Cambodian exports is very low. In the case of the garment sector, Sok *et al.* (2001) indicate that for every $100 worth of garment exports, $76 is spent on imported raw materials and $4 on utilities and other domestic inputs. Moreover, a study conducted by the Mekong Private Sector Development Facility (MPDF) also showed that garment companies usually

* This article is based on a paper presented at the Workshop on the Impact of International Integration on SME Development, 15–16 December 2004, held in Vientiane, Laos. The usual caveats apply.

obtain inputs from their customers, most of them operating on a cut, make, trim (CMT) arrangement. Unlike free on board (f.o.b.) producers,[2] CMT producers receive all major inputs and specifications from the buyers, who then buy 100 percent of the final product (MPDF 2000, p. 23).

There is also little value added in other products such as rice, which accounts for the largest share of agricultural production (33 percent in 1999). It has been noted that rice production reached a sustainable level of surplus at the national level in 1997, and the highest level in 1999/2000, with more than 4 million tonnes of paddy. To encourage the export of surplus rice, the government has eliminated barriers. However, to ensure national food security, the government requires exporters to obtain a permit. Despite the government's efforts to encourage rice exports, only a very small proportion of exports are milled rice (3,110 tonnes in 1999), and most are unprocessed paddy (470,594 tonnes in 1999).[3] A recent study conducted by the World Bank found that "in Battambang, which included a large number of rice millers, 70% of output is sold directly to consumers and the rest to small local businesses." (World Bank 2004, p. 43).

Similarly, the fish-processing sector in Cambodia is minuscule. On average, Cambodia produced 347,606 tonnes of fish annually in the period of 1998–2002, of which only 32,020 tonnes (9.2 percent) were processed and 43,760 tonnes (12.6 percent) were exported. Of total exports, it is estimated that about 75 percent are delivered to Thailand as fresh fish, iced fish and seafood, and another 15 percent to Vietnam (World Bank 2002). The study by Acharya *et al.* (2003) of 60 self-employed persons and enterprises engaged in fishing and 60 fish processing businesses also reflects this reality, pointing out that most fish is marketed fresh, and a relatively small portion is smoked, dried or salted. Fresh fish is mainly transported either to Phnom Penh or to the border at Poipet for export to Thailand.

Linkage between Imports and MSMEs

It is often argued that a low tariff rate on all imported capital goods and raw materials will allow local producers (including MSMEs) to obtain raw materials at world prices and ensure that local producers will not be at a disadvantage in competing with imported goods. In particular, a lower tariff rate on capital goods, raw materials and finished goods obviously discourages smuggling of imports. By contrast, a lower tariff rate on finished goods has an adverse effect on local producers. For instance, a cement factory in Chakkrei Ting, Kampot, was closed because it could not compete with imported goods, some of which are smuggled (Hing 2003). Cheap synthetic fabric with similar designs and patterns imported from Thailand increased slowly from a base of 100 in 1998 to 111 in 2002 (Acharya *et al.* 2003), and have reduced the sales of locally produced silk.

Although tariff rates will be reduced to below 5 percent by 2010, the government has increased excise rates on major import categories as a compensatory revenue measure. Excise taxes were raised on beverages, tobacco, passenger vehicles, motorcycles and petroleum products. In particular, the excise tax on petroleum products, which is the highest rate in the region (World Bank 2002, part C), has a big impact on manufacturers by increasing the cost of transportation and electricity and pushing down farm-gate prices, and as a result discourages production. This has seriously reduced Cambodia's competitiveness.

In addition, there are many unofficial fees levied on imports, reflected in the regulatory framework that allows many agencies to be represented at international checkpoints, with at least three different agents (World Bank 2002 states at least five) always present. The agencies involved in processing and inspecting imports include CamControl, the Customs and Excise Department, the Ministry of Health, the Ministry of Agriculture, Forestry and Fisheries, the Police Frontier Defence Department and the Economic Police from the Ministry of Industry and provincial/municipal authorities. CamControl, the Police Frontier Defence Department and the Customs and Excise Department are to be represented at every border checkpoint. The duplication in import processing has raised uncertainties, costs and the time needed to import production inputs.

As a result, the high costs of inputs and equipment resulting from excise taxes and formal and informal fees remain a major constraint for local manufacturers in competing with legally imported or smuggled goods.

Business Environment

Legal Basis of the MSME Sector

Since there is no commercial enterprise law, firm registration and corporate governance are stipulated under the 1995 Law on Commercial Rules and Registration and its 1999 amendments and in the Ministry of Commerce (MoC) Instructional Circular on Commercial Registration. The Law on Commercial Rules and Registration and its amendments cover mainly the requirements for commercial registration and the maintenance of the commercial registry (ADB 2003).

However, the government has recently improved the legal framework for commerce, with new financial sector laws helping to strengthen the banking system and the insurance industry, for example. The land law has created the framework for ownership of immovable property, the mortgaging of land and the issuance of land titles. The Law on Investment (LoI) amendment in 2003 simplified investment licensing and modified the tax incentives for investment projects. Moreover, the government is currently drafting laws on commercial enterprises, commercial contracts, commercial arbitration, negotiation instruments and payment transactions, factory management, insolvency, secured transactions and industrial zones.

Business Regulation

Under the Law on Commercial Rules and Registration, only companies with more than 6 million riel ($1,500) in annual profit are required to pay profit tax and to register, and therefore most MSMEs are not subject. In practice, an enterprise tends to register for specific reasons, such as borrowing from a bank, obtaining an export or import licence, applying for government procurement projects or entering into contracts with large enterprises. Moreover, the registration process is very complicated. Because of this, enterprises usually count on formal or informal facilitators, who charge fees to manage all the application forms. Although the process is significantly simplified, the overall cost of registration is increased, from 300,000 riel (about $75) under the law, to an average of 8,000,000 riel (about $2,000).

The government made plans to simplify and streamline registration in its first planning stage during 2004–2006 by: (a) allowing enterprises to authorise representatives to carry out tasks such as providing signatures and making presentations at the MoC; and (b) establishing one-stop services for enterprise registration (ADB 2003).

Investment Incentives

Sub-decree 88 of 1997, on implementation of the LoI, provides a list of sectors, sizes of investment and tax-paying status for which incentives apply and the size of qualifying projects. In most cases, the investment requirements are too large for most Cambodian MSMEs to participate. For example, in manufacturing sectors the minimum investment to be a qualified investor is $500,000. In other sectors, such as textile mills or paper and paper products, the size of investment amounts to at least $1 million. In addition, only enterprises registered with the MoC and completing financial statements under the profit tax system are qualified to participate in the incentive system. Therefore, MSME investors are unable to use investment incentives.

Credit Access

To some extent the bank re-licensing program seems to be successful, because public confidence in the banking system appears to be gradually improving. However, lending continues to stagnate, and most loans are still short term, mainly providing import/export financing and working capital to the wholesale and retail trade and the service sector (such as tourism, hotels). The study conducted by MPDF in 12 out of the total 17 banks found that: (a) 70 percent of loans to MSMEs in Cambodia were for one year or less; (b) 29 percent of loans were for one to two years; and (c) only 1 percent of loans were for over two years.

In addition to the banks' reluctance to make long-term loans, limited access to financial institutions is also a major issue facing enterprises in Cambodia. It has been noted that approximately 80 percent of the population is unable to access banking services. On the other hand, there are approximately 80 NGOs (both local and international) operating as semi-formal micro-finance institutes in rural areas and providing small loans to farmers and small businesses, which, however, cannot meet the whole demand for borrowing. Only 20 percent of the annual rural finance demand of $120–130 million is met from institutional sources. One third of this demand is for micro-credit, ranging from $50 to $300 (ADB 2003).

Industrial Level

Business Associations

Business associations are expected to play an important role in developing markets by providing market research, information on consumer preferences and assistance in distribution. It is known that rice miller associations have helped to improve quality through training of millers in seed and milling technology. They have also instructed rice millers on market trends and educated them on how to meet market demands. Despite this, the recent study by MPDF of 68 firms showed that only 18 of the sample were members of an association or chamber of commerce. The 18 members of associations are larger firms with a mean turnover of $625,000 per year, compared to a mean turnover of $150,000 for the sample as a whole and $120,000 for non-members of associations. In addition, most members expressed disappointment with the benefits received from their associations (MPDF 2000, p. 21).

Subcontracting

It is well known that contract farming schemes provide more opportunities for local businesses to create an environment that fosters market growth, specialisation and adherence to international quality standards (World Bank 2004). However, a study of four major cash crops (soybeans, maize, cassava and cashews) focusing mainly on production, marketing, exports and processing revealed that such schemes are difficult to establish in the current context of Cambodia, which is characterised by severe poverty and a lack of effective enforcement of contracts (Chan 2003). However, there are several cases of firms successfully establishing contract-farming schemes in recent years, such as Angkor Kasekam Roongroeung, a Cambodian investment firm established in 1999, specialising in rice processing and exports, and hand made garment items.

Srey and Lay's study (2004) of Angkor Kasekam Roongroeung found that farmers' annual incomes had doubled from 800,000 riel per ha to 1.6 million riel per ha due to the use of a contract farming scheme, and the company's rice exports had doubled from 4,000 tonnes in 2002 to 8,000 tonnes in 2004. A study of cross-border trade by Murshid and Sokphally (2004) in the Poipet area also found that the subcontracting system for garment items (e.g. hats, shorts or trousers) is rapidly expanding from the border area to deep inside Cambodia.

Enterprise Level

Skills training

A number of technical centres and schools have been set up by the government and NGOs in both rural and urban areas in Cambodia. These centres provide only short training courses of a few weeks or months, so it is difficult to transform trainees with few assets and low education into entrepreneurs. Furthermore, the vast majority of workers learned skills from their families, and in some cases from NGO experts, although it is not clear whether this was important for workers in their present jobs (Acharya *et al.* 2003).

Entrepreneurship Development

Currently, there are few business development services in Cambodia. Organisations such as the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), MPDF, SME Cambodia and the Association of Cambodian Local Economic Development Agencies (ACLEDA) have provided business training for many years (ACLEDA abandoned its training programmes in mid–1998 due to low demand).

In its operations in Cambodia, MPDF has offered training in marketing, human resources, production and operations management, finance, accounting and so on. MPDF has also supported Cambodia's motivated rice millers to create a business association. To strengthen the associations' abilities, MPDF collaborated with SME Cambodia and Khmer Internet Development Service (KIDS) to launch RICENET—a website dedicated to providing more effective dissemination of industry information and facilitating communication between suppliers and buyers. It also seeks to support and build the capacity of local intermediary organisations that deliver essential services to MSMEs as well as to improve the business environment for MSMEs. However, out of the 87 company advisory assistance projects completed by MPDF in the region (Cambodia, Lao PDR and Vietnam), only seven were in Cambodia.

Conclusion

Findings indicate that the impacts of trade liberalisation on MSMEs in Cambodia have so far been relatively limited at each of the three levels examined (national, industrial and enterprise). Although the business environment seems to have gradually improved over the past few years in terms of legal status and business registration and licensing procedures, there remain serious issues for other policies, including excise taxes levied on major imported commodities (in particular petroleum products), higher formal and informal fees on imports, lack of access to investment incentives, lack of financing and poor physical infrastructure. In addition, business associations for the MSME sector have developed slowly despite some attempts to accelerate them, and members generally report low involvement and limited use. The study findings also confirm that very few MSMEs have been directly influenced by economic integration, through direct contact with foreign firms or direct exports, because there is extremely limited forward and backward linkage between foreign-owned or large Cambodian enterprises and MSMEs, and because of low or no value added in Cambodian exports. More interestingly, the study has identified the potential use of contract-farming schemes in both agricultural and industrial products.

Endnotes

1. Total exports are the sum of domestic exports and re-exports. Domestic exports include logs, sawn timber, fish products, rubber, garment exports, agricultural products etc.
2. F.o.b. producers are responsible for inputs and have more flexibility to search for both multiple suppliers of inputs and diversified buyers. The tradeoff between higher value addition and profits of f.o.b. production is the greater investment required and greater risk assumed by the producer.
3. In addition to the lack of access to working capital, insufficient milling capacity is also part of the reason for exporting unprocessed paddy. Cambodia produces nearly 4.12 million tonnes of paddy each year, but milling capacity is only 1.31 million tonnes (World Bank 2004).

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Understanding Drug Use as a Social Issue: A View from Three Villages on the Outskirts of Battambang Town

John McAndrew highlights the results of a small-scale study that examines the causes and consequences of drug use among young people outside of Battambang town.*

Until the mid-1990s, drug use in Cambodia was primarily associated with foreigners and local youth from wealthy families. However, by the late 1990s, drug use was on the rise among young Cambodians from all social strata. This was particularly true of drugs in the category of amphetamine-type stimulants (ATS), the most common known locally as *yaba* or *yama*. In the new millennium, the flow of amphetamines into Cambodia had reached staggering proportions. In 2003 the United Nations Office on Drugs and Crime (UNODC) estimated that 100,000 methamphetamine tablets entered Cambodia each day from the north-eastern border alone, some 75 percent of which were thought to be exported to Thailand. In 2002 the UNODC reported that methamphetamine trafficking from Thailand into western and north-western Cambodian provinces had evidently increased due in part to greater local demand, especially in urban areas. The UNODC further documented an apparent increase in the trafficking of precursor chemicals into Cambodia for the local production of ATS. Noting the huge supply of drugs flowing into Cambodia, this article explores the trends of drug use among young people in three villages on the outskirts of Battambang town in north-western Cambodia. The research attempts to identify the causes and consequences of drug use among young people, examine the effects of drug use on family life and assess the impact of drug use on community life.

Research Methods

The field research was conducted by the ADI team and trainees in February 2004 in three villages of Battambang district on the outskirts of Battambang town: Anhchanh and Ou Char villages in Ou Char commune, and Rumchek 1 village in Rotanak commune. Two primary research methods were used: focus group interviews and survey questionnaires. Focus group interviews were conducted in the three villages with key village and commune leaders and with non-drug using youth. Survey questionnaires were also conducted through purposive sampling in the three villages with drug users, drug user households (in most cases not those of the drug users interviewed) and non-drug user households. In the three villages a total of 30 drug users, 33 drug user households and 60 non-drug user households were interviewed.

Trends in Drug Use

In the sample of drug users and drug user households, the taking of drugs was a fairly recent phenomenon, starting predominantly from 1998 and increasing steadily thereafter. All of the 30 drug users interviewed were male, primarily between the ages of 15 and 22. Similarly, all of those taking drugs in the 33 drug user households were male, mostly from the same age group. All 30 drug users interviewed acknowledged that their drug of choice was amphetamines (*yaba*). Generally, users found the drugs accessible and affordable.

Occupations pursued by households in the villages studied provided members with a degree of independence. Despite slight differences in economic status, the drug user and non-drug user households both relied primarily on wage labour, petty trade and small businesses for their subsistence. Only small numbers of households relied on rice and cash crop farming. Unlike farming, in which households usually work together as a unit and subsist on a clearly delineated harvest, wage work and involvement in small enterprises often mean that household members work and earn separately from each other. While a portion of each member's earnings is pooled to support the household collectively, a portion is invariably retained as the disposable income of individuals. This enables even young people to have some buying power independently from their parents. Of note, almost half of the drug user respondents had worked as migrant labourers.

Notably, the persons who introduced users to drug taking in the three villages studied were predominantly their friends. This pattern was reported by the drug users themselves and observed by respondents from both drug user and non-drug user households. Among the drug takers, peer groups had emerged as an important focal point in their lives, and the influence of their friends had come to have considerable bearing on their behaviour. Moreover, drug users relied primarily on their friends to support their drug habits through the sharing of money or drugs. This helped mutually to sustain their addictions. At the same time, drug users acknowledged that they stole money from their own families and from other people to buy drugs. A small number also dealt drugs to get drugs. About one-third of the drug users spent earnings from legitimate work to support their habits.

Tellingly, many of the drug users interviewed had tried to break their drug habits but had little success. Several strategies were tried. Some users stopped going

* John McAndrew is the project adviser of the Analysing Development Issues (ADI) Project of the Cooperation Committee for Cambodia (CCC). The full study, authored by the ADI team and trainees, is available in English and Khmer at the CCC office.

out with their drug user friends. Some ate fruits like mango and lemon to curb their taste for drugs. Some even moved out of the village for a while. Some also worked hard, exercised, smoked cigarettes or tried to fill themselves with *yaba* to the point where it would no longer be enjoyable. Half of those who tried to stop emphasised the need to be strongly committed to stop.

While most parents were anxious to help their children with drug problems, they had little in-depth knowledge of drug addition, and therefore their interventions were largely ineffective. Almost half of the drug user households interviewed did not even know what kind of drugs their members used. Nonetheless, two-thirds of the drug user respondents said that their parents had done something to help them stop. But this usually involved nothing more than advising the children to stop without giving them a clear method on how to do so.

While local authorities were less involved than parents, their knowledge of drug addiction was similarly limited and their actions likewise ineffective. By contrast with parent intervention, only one-third of the drug users interviewed stated that the local authorities had educated them about drug use. Usually, the authorities just told them to stop using drugs and causing problems in the village. They too provided no clear method to the users on how to overcome their amphetamine addiction.

Drug users had more fun as a result of their drug use; they were equally forthcoming about the adverse consequences they endured. Most had suffered health problems. These included becoming thin and pale, being tired, being unable to sleep, loss of appetite and fever.

Causes and Consequences of Drug Use

Perhaps contrary to popular belief, drug users did not take drugs primarily because they were beset with problems but because they found it attractive. They wanted to be accepted by their friends, to try something new and to be happy. This again underscored the influence of peer groups and the importance of social networks in supporting drug use. Intriguingly, the drug users interviewed often talked about "being pulled" into drug use by their friends. Meanwhile, modern lifestyles in other Asian countries, and particularly in Thailand, were depicted daily in television broadcasts and in movies shown regularly in public places in Battambang town. In this media exposure to new hairstyles, clothes and body ornamentation, drug use was often associated with being modern and cool. Young boys wanted to try or "taste" it. In addition, young men working as migrant labourers near the Thai border or in Thailand learned that they could work longer hours and earn more money by taking amphetamines. Observations made by respondents from drug user and non-drug user households about why their child or other young people took drugs, were largely consistent with the reasons given by the drug users themselves.

The Story of Rim Samath

*Rim Samath was born in Siem Reap, the second child in a family of 10 siblings. He was 23 years old and still single. His parents were relatively poor petty traders who moved from Siem Reap to Phnom Penh to Battambang to deal with the jealousy of his father, who was overly possessive of his mother. Frequent changes of residence disrupted Samath's education, as did the recurrent domestic violence that plagued his household. At the age of 20, Samath migrated to Thailand to work carrying bags of sugar at a factory. It was at that time that he started to take amphetamines (*yaba*) every day along with many of the other workers. He found that the drugs gave him energy and allowed him to work for long hours without feeling sleepy or hungry. But the drugs also made him feel weak and dizzy, and he became thin and anxious. Although he wanted to stop, his friends persuaded him to continue.*

Samath was now back in Battambang living with his family in Ou Char village. He worked irregularly in Pailin loading wood and logs and continued to take drugs. When he worked, he earned Thai baht 100 (about US$2.50) per day but spent much of this on drugs. Occasionally, he gave his mother some money to buy rice. Samath's friends were mostly other drug users. Other people his age who did not use drugs largely avoided him. Some of his neighbours likewise were afraid that he would steal their belongings to buy drugs. His mother often complained about his drug use and threatened to have the police arrest him. He had tried to stop using drugs but when he was tired he needed the drugs to function. Samath had never entered a drug rehabilitation programme.

Effects of Drugs on Users

While a large majority of the 30 drug users interviewed maintained that they had more fun as a result of their drug use, they were equally forthcoming about the adverse consequences they endured. Most had suffered health problems. These included becoming thin and pale, being tired, being unable to sleep, loss of appetite and fever. Many had also experienced losing self-control, becoming involved in fights and/or dropping out of school. Some users acknowledged that they had been arrested by the police, had stopped working, had been involved in crime and/or had lost interest in life.

Clearly drug use had taken a toll on interpersonal relationships. More than half of the drug users interviewed reported that, as a consequence of their drug use, they had more arguments with their parents and other household members. Many had left home, at least for short periods, had fewer friends and had problems with other villagers, local authorities and the police. Some countered that they also had more friends now among their fellow drug users. Drug user households noted similar breakdowns in the relationships of their drug using children.

Effects of Drug Use on Family Life

The 33 drug user households interviewed revealed that the drug use of their members had serious adverse economic effects on their families. Many respondents acknowledged that their households were less productive than before and that their children who used drugs no longer contributed to household livelihoods. Meanwhile households were spending more money on health costs incurred by drug using members. Likewise disturbing, other children in drug user households had started to take drugs, no doubt influenced by their older siblings. Drug user households were particularly worried that their children who used drugs would introduce them to their other children who did not take drugs.

Impacts of Drug Use on Community Life

With respect to the effects of drug use on community life, security issues were paramount. Large numbers of drug user and non-drug user households reported that there had been more theft, more fighting, more gang activities, a disruption of community events and a general worsening of security in the village as a result of drug use. Many drug users had also dropped out of school and left home, and parents were increasingly worried about their children. Some respondents noted an increase in HIV/AIDS, and several indicated that there was more distrust among villagers. While government and NGO programmes sought to reduce poverty, promote education and build solidarity among villagers, drug use had insidiously worked to undermine these efforts.

Concluding Observations

Cambodia's transition to a market economy opened up borders and spurred trade with neighbouring countries. In large measure, this trade offered the promise of a better life for most Cambodians. But left unregulated, it threatened to exacerbate existing social inequities and tear apart the very fabric of society. Together with the trafficking of human beings, the trafficking of drugs represented one of the most vile and despicable forms of trade to have emerged within the free market economy.

In the villages studied, corruption was embedded in local networks that included drug sellers, district officials and police, village and commune authorities and drug users. For example, village and commune officials complained that drug sellers handed over to the district police were released once they paid a fine. In one instance, a local drug dealer was reportedly released after his family paid 20,000 baht (about $500) to the police. This represented a significant amount of money for local families and indicated that some drug sellers had access to large sums of money. Wealthy drug sellers considered themselves untouchable and even mocked village and commune authorities for their inability to keep those who were arrested in jail. No wonder that several local sources described the flourishing drug trade as one in which " money can buy impunity."

In situations where police made serious attempts to arrest drug sellers, the local networks adapted in response and made accommodations to thwart the law enforcers. For instance, after several crackdowns at known drug outlets in one village, the drug dealers became mobile and enlisted young schoolchildren to make deliveries for them. The drug sellers would drive along the main road of the village on motorbikes or bicycles and distribute the drugs to the young schoolchildren, who in turn would pass the tablets on to the drug users. As part of the delivery network the schoolchildren could earn 1,000 riels (about $0.25) per tablet sold.

The social networks emerging among the drug users likewise helped to sustain their drug habits. Drug users in the three villages studied were mostly young single men. Living on the outskirts of Battambang town they had been caught up in the broader urbanisation process of this north-western province. This included shifts from farm to off-farm work, from village to migrant work, and from family dependence to increased mobility and personal independence. Through the media, these youth were exposed to modern lifestyles, often associated with frequent drug use. As the focal point of their lives shifted from their families to their peer groups, being accepted by their friends became an important rationale for their behaviour.

Young men who took drugs relied on each other to sustain their addictions and often shared drugs, inhaling them together in groups. Drug taking likewise emboldened the users to steal property from their families and from public places in the provincial town. Stealing from others was often done with friends, and the booty that was realised was normally converted to drugs for group consumption. When individual drug users tried to stop taking drugs, it was usually their friends who "pulled" them back into their drug habits.

In general, parents of drug users had not been able to curb the addictions of their children. While awareness of drug use was apparently high among parents even before it became a problem in their families, they lacked an in-depth understanding of drug addiction and how to deal with it effectively. Similarly, local authorities lacked a thorough knowledge of drug addiction and were unable to respond adequately to the problem. On their part, villagers remained largely immobilised waiting for others to solve the problem. As long as these conditions prevailed, drug use in the three villages was likely to continue.

Endnotes

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Economy Watch – External Environment

Although high crude oil and food prices continued to drive up consumer prices in most countries in Asia, GDP growth climbed down somewhat from the high rate of the first half of the year. In the US, economic performance was not as strong as many economists expected, but it was still considered the best performance in the past three quarters (i.e. the fourth quarter 2003, the first quarter 2004 and the second quarter 2004). In the euro area economic growth slowed; however, looser monetary policy is expected to boost domestic demand in the region.

World Economic Growth

In the third quarter 2004, the US economy grew at an annual rate of 3.9 percent; 0.8 points lower than in the second quarter. The slowdown primarily involved three factors: personal consumption, gross private domestic investment and exports. According to the US Bureau of Economic Analysis, growth of personal consumption in the third quarter 2004 slowed to 3.5 percent year on year, compared with 3.6 percent in the second quarter. In the third quarter 2004, gross private domestic investment grew at 12.5 percent, the slowest rate in three quarters, while export growth declined to 9.2 percent from 10.8 percent in the second quarter. By contrast, imports increased by 12 percent in the third quarter 2004, up from 10.7 percent in the second quarter. The US current account deficit reached a historical high of US$166.2 billion equivalent to 5.7 percent of GDP in the second quarter 2004, tending to dampen performance. It is important to note however, that the Federal Reserve raised its benchmark overnight bank-lending rate five times in 2004 in the face of US economic recovery and to stem possible inflationary pressures from developing.

The economic growth of the euro area in the third quarter 2004 was 1.9 percent year on year basis, down from 2.2 percent in the second quarter 2004. According to Reuters, high oil prices and the appreciation of the euro were the primary causes of the deceleration. Reuters also noted that the slowdown in the euro area was anticipated by a weakening of the two largest euro economies, Germany and France. Due to a concern about the continuing decline of economic growth in the euro area, the European Central Bank decided to leave its main refinancing lending rate unchanged at the historically low level of 2 percent at its meeting on 2 December 2004. The euro area GDP growth is estimated to range between 1.6 percent and 2.0 percent in 2004. It is projected by the European Central Bank to be between 1.4 percent and 2.4 percent in 2005.

In Japan, economic recovery lost some momentum as GDP growth continued to decelerate, reaching 2.6 percent in the third quarter, down from 4.4 percent in the second quarter and 5.6 percent in the first quarter. The slowdown largely reflected a tapering off of both domestic and external demand. Domestic demand fell to 2.9 percent in the third quarter from 4.6 percent in the second quarter, and export growth declined to 14.5 percent in the third quarter from 17.9 percent in the previous quarter. The outlook for the Japanese economy has become more uncertain as a result of high oil prices, weak demand and recent natural disasters.

Economic activities in some other Asian economies have gradually decelerated in recent months as well. GDP growth in China eased to 9.1 percent in the third quarter of 2004, from 9.6 percent in the previous quarter. Administrative measures to cool the economy appeared to affect China's GDP growth for the third consecutive quarter. Due to a rising concern over administrative controls (i.e. that lending restrictions will further slow the world's seventh largest economy), the central bank has recently planned to replace them with an interest rate policy, according to Bloomberg News. Hong Kong's economy grew by 7.2 percent over a year earlier in the third quarter, 4.9 percentage points less than in the second quarter. However, the second quarter 2004 rise is due partly to the unusually low 'base' figure for the second quarter of 2003, in which the economy was seriously affected by SARS. For this reason, government economists are very optimistic about Hong Kong's economy, which is expected to reach the forecast 7.5 percent growth for 2004 as a whole.

In third quarter 2004, the Singapore economy grew more slowly at an annual rate of 7.5 percent, compared with the growth rate of 12.5 percent in the second quarter 2004, reflecting a decline in both external and domestic demand. External demand fell to 21.4 percent in the third quarter 2004, down from 25.8 percent in the previous quarter. Domestic demand eased to 10.3 per cent in the third quarter, from 13.6 percent in the second quarter.

World Inflation and Exchange Rates

In spite of higher crude oil prices, consumer prices in the US declined by 0.1 percentage points between the second and third quarter, 2004. However, the core inflation rate, which excludes food and energy, remained unchanged at 1.8 percent. The anti-inflationary stance of the Federal Reserve may have been responsible for this. It may be noted that the Fed raised interest rates twice in the third quarter, in August and September 2004 (by 25 basis points each time). Consumer prices in the euro area rose by 2.3 percent in the third quarter of 2004, the fastest rise in six quarters. The price decline in Japan eased to 0.1 percent in the third quarter, driven by higher prices of food and energy, up from 0.3 percent in the second

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Economy Watch—External Environment

Table 1. Real GDP Growth of Selected Trading Partners, 2000–2004 (percentage increase over the previous year)

	2000	2001	2002	2003				2004		2003
			Q4	Q2	Q3	Q4	Q1	Q2	Q3	
Selected ASEAN countries										
Cambodia	7.3	6.7	-	-	-	-	-	-	-	5.0
Indonesia	4.4	3.8	3.8	3.8	3.9	4.3	4.5	4.3	5.0	4.1
Malaysia	8.7	0.5	5.4	4.4	3.5	6.4	7.6	8.0	6.8	5.3
Singapore	9.5	-2.3	3.0	-4.2	1.7	3.7	7.5	12.5	7.5	1.1
Thailand	4.4	1.9	6.0	5.8	6.6	7.8	6.5	6.3	6.0	6.7
Vietnam		6.0	-	6.9	-	-	-	-	-	7.0
Selected other Asian countries										
China	8.0	7.5	8.1	6.7	9.1	9.9	9.7	9.6	9.1	9.1
Hong Kong	10.2	0.5	4.8	-0.6	4.0	4.9	6.8	12.1	7.2	3.2
South Korea	9.1	3.0	6.8	1.9	2.3	3.9	5.3	5.5	4.6	3.1
Taiwan	5.8	-2.2	4.2	-0.4	4.2	5.4	6.3	7.7	5.3	3.2
Selected industrial countries										
Euro-12	3.5	1.4	1.3	0.2	0.3	0.6	1.5	2.2	1.9	0.6
Japan	2.8	0.4	1.7	2.1	1.9	3.1	5.6	4.4	2.6	2.5
United States	5.0	1.2	2.8	2.4	3.6	4.3	5.0	4.7	3.9	3.1

Source: The Economist, Far Eastern Economic Review and countries' national statistics offices and central banks

Table 2. Inflation Rate of Selected Trading Partners, 2000–2004 (percentage increase over the previous year—period average)

	2000	2001	2002	2003				2004		2003
			Q4	Q2	Q3	Q4	Q1	Q2	Q3	
Selected ASEAN countries										
Cambodia	-0.3	-0.4	3.0	1.6	0.7	0.5	0.8	2.2	6.7	1.5
Indonesia	3.7	11.3	10.3	6.5	5.6	3.7	4.8	6.7	7	5.8
Malaysia	1.5	1.4	1.9	0.9	1.0	1.1	0.9	1.2	1.4	1.0
Singapore	1.4	1.0	0.1	0.1	0.5	0.7	1.4	1.8	1.7	0.5
Thailand	1.6	1.8	1.4	1.7	1.8	1.5	1.9	2.7	3.2	1.8
Vietnam	-1.7	0.0	3.7	2.3	3.5	2.2	-	-	-	3.1
Selected other Asian countries										
China	0.3	1.0	-0.6	0.6	0.8	2.7	2.8	4.4	5.3	1.2
Hong Kong	-3.7	-1.5	-2.9	-.25	-3.7	-2.5	-1.2	-0.7	0.7	-2.5
South Korea	2.3	4.3	3.2	3.3	3.1	3.5	3.2	3.3	4.3	3.5
Taiwan	1.3	-0.01	-0.5	-0.1	-	-	-	-	-	-0.3
Selected industrial countries										
Euro-12	2.3	2.6	2.3	2.0	2.0	1.9	1.6	2.1	2.3	2.1
Japan	-0.6	-0.5	-0.5	- 0.2	-0.3	0	-0.1	-0.3	-0.1	-0.2
United States	3.4	2.9	2.2	2.1	2.2	1.9	1.7	2.8	2.7	2.3

Source: International Monetary Fund, the Economist and the National Institute of Statistics

Table 3. Exchange Rates of Selected Trading Partners Against the US Dollar, 2000–2004 (period averages)

	2000	2001	2002	2003				2004		2003
			Q4	Q2	Q3	Q4	Q1	Q2	Q3	
Selected ASEAN countries										
Cambodia (riel)	3,871	3,935	3,948	4,008	4,015	3,999	3,991	4,016	4,060	3,992
Indonesia (rupiah)	8,421	10,261	9,054	8,479	8,441	8,482	8,469	9,001	9,164	8,577
Malaysia (ringgit)	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80
Singapore (S$)	1.72	1.79	1.77	1.75	1.75	1.72	1.69	1.70	1.70	1.74
Thailand (baht)	40.1	44.4	43.4	42.2	41.3	39.7	39.1	40.3	41.3	41.5
Vietnam (dong)	14,168	14,725	15,376	15,472	15,522	15,618	16,208.6	15,733	16,262	15,510
Selected other Asian countries										
China (yuan)	8.28	8.28	8.28	8.28	8.28	8.28	8.28	8.28	8.28	8.28
Hong Kong (HK$)	7.80	7.80	7.80	7.80	7.79	7.75	7.77	7.80	7.80	7.78
South Korea (won)	1,131	1,291	1,219	1,207	1,174	1,182	1,171	1,163	1,155	1,192
Taiwan (NT$)	31.8	34.1	34.8	35.0	34.2	34.0	33.4	33.3	34.3	34.5
Selected industrial countries										
Euro-12 (euro)	1.08	1.12	1.00	0.88	0.88	0.84	0.79	0.83	0.82	0.88
Japan (yen)	108	122	123.0	118.4	117.6	108.9	107.2	109.7	110.0	115.9

Source: International Monetary Fund, the Economist and National Bank of Cambodia

Table 4. Selected Commodity Prices on the World Market, 2000–2004 (period averages)

	2000	2001	2002	2003				2004		2003
			Q4	Q2	Q3	Q4	Q1	Q2	Q3	
Hardwood (logs)—Malaysia ($/m^3)	190.1	160.1	181.2	182.1	183.0	197	197.7	195	199.5	187.1
Hardwood (sawn)—Malaysia ($/m^3)	599.2	488.3	565.4	552.4	552.0	545.5	547.8	576.9	594.4	550.2
Rubber—Malaysia ($/ton)	720.8	602.0	834.1	975.8	1,017.4	1,261.4	1,246.4	1,333.4	1,190.6	1,050
Rice—Bangkok ($/ton)	203.7	172.6	189.6	197.5	199.6	196	215.3	235.8	224.6	197.8
Soybeans—USA ($/ton)	211.3	195.6	239.0	245.7	244.3	219.7	238.5	249.7	163.77	238.3
Crude oil—Dubai ($/barrel)	26.1	22.8	26.2	24.5	26.5	27	29.3	33.3	36.09	26.8
Gold—London ($/troy ounce)	279.0	279.0	317.8	346.7	363.3	391.9	408.5	393.1	401.3	363.5

Source: The International Monetary Fund, and Far Eastern Economic Review

Economy Watch—Domestic Performance

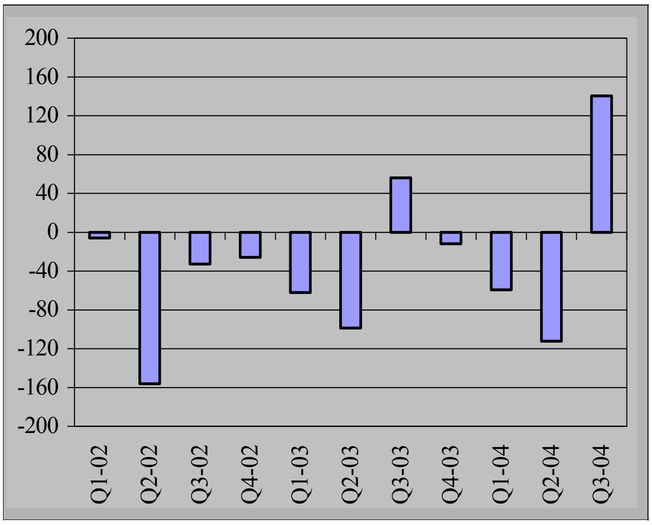
Main Economic Activities

Overall performance of the Cambodian economy in the third quarter was strong. Exports, construction activities and tourism picked up speed, while private investment (reflected in changes to total fixed asset approvals) declined, between the second and third quarters.

In the third quarter of 2004, Cambodia's trade balance recorded a surplus of $140.8 million, the second time over 11 consecutive quarters that a surplus was recorded (see figure1). Total exports grew by 35.2 percent to $668.8 million in the third quarter, compared with an increase of about 24 percent in the preceding quarter. Exports of garments, textiles and footwear continued to drive growth in Cambodia's total exports, rising to $643.7 million in the third quarter, 34.3 percent higher than the preceding quarter. The US market remains the major market for Cambodia's garment exports, representing about 60 percent of market share in the third quarter, somewhat lower than in the previous quarter. At the same time, the export of agricultural products rose markedly, by 64 percent, to $25.1 million. On an annual basis, export performance was weaker, with a 36 percent drop in value in third quarter of 2004 compared to the same period in 2003.

Between the second and third quarter of 2004, total imports declined by 13 percent, from $607 million to $528 million. This is reflected in lower imports of major products such as gasoline, vehicles, construction materials (including steel, cement and other construction materials), and fabrics. According to the Customs and Excise Department, gasoline imports amounted to $6.6 million in the third quarter, 24 percent less than in the preceding quarter. Vehicle imports dropped by 21 percent to $26.3 million, reflected mostly in fewer imports of tractors and motorbikes. Similarly, the import of construction materials declined by 21 percent to $21.3 million, while steel imports fell by 41.6 percent and cement imports by 8 percent. Fabric imports also decreased, to $183 million (a 14 percent drop). On the major import products mentioned above, the Customs and Excise Department collected revenues of around $59 million, accounting for 43.7 percent of the total import tax revenues for the third quarter.

Figure1: Cambodia's Trade Balance



Source: Customs and Excise Department, Ministry of Economy and Finance.

The value of construction projects approved also increased in the third quarter. Based on data from the Department of Cadastre and Geography of the municipality of Phnom Penh, the estimated value of construction project approvals amounted to $78 million (276 projects) in the third quarter, 60.5 percent higher than the preceding quarter, which was $48.6 million (237 projects). Apartment construction approvals rose to $44.3 million (186 projects) from $28.5 million (161 projects) between the second and third quarters, resulting in a 55.5 percent increase in floor area in the third quarter.

In the third quarter of 2004, Cambodia's tourism sector performed well, as reflected in the number of international passengers. According to the Ministry of Tourism, 227,926 persons visited Cambodia in the third quarter, 17.6 percent more than in the second quarter and 44 percent more than in the third quarter of 2003. Phnom Penh International Airport received 74,310 passengers in the third quarter (compared to 72,908 in the second quarter), of which 21 percent (15,660 persons) were officials or business people. During the same time, there was a 39 percent increase in visitors arriving at Siem Reap International Airport. Visitors arriving in Cambodia through international border checkpoints reached 84,052 persons in the third quarter, 18.4 percent more than in the preceding quarter.

Private investment seems to have declined in the third quarter, mainly arising from reduced investment in the agricultural and service sectors, even though there was an increase in industrial investments. Total private investment fell by 28 percent to $82 million in the third quarter, from $113.3 million in the preceding quarter. According to the Council for the Development of Cambodia, approvals for investment in the service sector declined from $76 million to $6.4 million, and in the agricultural sector from $9.4 million to $2.9 million. Investment approvals in the industrial sector, on the other hand, rose sharply to $72.7 million, from $28 million—led by approvals in the garment sector (which rose by $44 million in the third quarter, up from only $10 million in the preceding quarter). The top investors during the first nine months of 2004 were China, Cambodia, Malaysia and Taiwan.

Public Finance

In the third quarter, Cambodia's overall deficit worsened compared to the preceding quarter. The expanding

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budget deficit (from 180.2 billion riels to 207.1 billion riels) reflects a continuing decline in budget revenues. Budget expenditures also fell, but only slightly.

Total revenue consists of tax, non-tax and capital revenues. It dropped by 7.5 percent, to 452 billion riels in the third quarter, compared with a decrease of 6.7 percent in the preceding quarter. Tax revenue shrank by 4 percent to 334 billion riels, led by a fall in excise and custom duties and payroll taxes. In addition, collection of visa fees fell by 44 percent and revenue from forest resource exploitation by 39 percent. Domestic capital revenues, which derive from sale of immovable property, privatisation, and other sources, fell to 1.3 billion riels in the third quarter, down from 13 billion riels in the preceding quarter. From January to September 2004, total budget revenues amounted to 1,464.6 billion riels ($364.1 million), reaching 69 percent of the 2004 budget law target. This is an improvement over the same period in 2003, when revenue collection totaled 1,207.4 billion riels ($303.5 million).

Government spending declined marginally, by 1.6 percent to 659.2 billion riels, in the third quarter compared to the second quarter. Of the total amount spent, 426 billion riels went to pay for current expenditures, while 233.2 billion riels were spent on capital expenditures. Reduced domestic financing (decline of 48 percent) as well as foreign financing (6.6 percent fall) resulted in a sharp reduction in capital (and therefore overall) expenditures. Current expenditure, however, rose by 14 percent in the face of larger outlays on "general administration", and "economy and social administration."

Inflation and Foreign Exchange Rates

Consumer prices in Phnom Penh rose more quickly in the third quarter, by 4.5 percent, compared to 1.5 percent in the preceding quarter. Food, beverages and tobacco prices climbed by 8.9 percent, followed by a rise of 3.5 percent in the cost of transportation and communication, in turn led by the increase in petrol prices. Similarly, on a year-to-year basis, inflation in Phnom Penh accelerated, rising to 6.7 percent in the third quarter, from 2.2 percent in the second quarter. The increase in overall consumer prices mainly resulted from surging food and fuel prices. There was, however, a modest decline in the price of some consumer items, namely furniture, clothing and footwear and medical care.

In the third quarter of 2004, the riel continued to depreciate against the US dollar. It fell by about 1.1 percent, trading at 4,060 riels/dollar, compared to 0.6 percent in the second quarter. Likewise, the riel lost value against the Vietnamese dong, depreciating to 25 riels per 100 dongs from 24.7 riels per 100 dong. In contrast, the riel was traded at 98.9 riels/baht, a 1.6 percent appreciation in the third quarter, following a 1.4 percent appreciation in the preceding quarter.

Monetary Development

According to the monetary survey of the National Bank of Cambodia, money supply within the banking system totalled 4,169.5 billion riels ($1,029.5 million) in the third quarter, 8.5 percent more than in the preceding quarter. Foreign currency deposits (mostly consisting of individual deposits and deposits of NGOs) rose by about 10 percent to $738 million (2,989 billion riels) over the same period. Meanwhile, riel deposits also increased, by 4.2 percent to 142 billion riels, compared to an 11.6 percent increase in the second quarter. The riel stock outside banks reached 1,038.4 billion in the third quarter, 3.7 percent more than in the second quarter. Total liquidity rose considerably, by 38.7 percent, over the preceding year, due to a simultaneous rise in foreign currency deposits (by 46.3 percent) and in riel deposits (by 20 percent).

Poverty Situation—Earnings of Vulnerable Workers

According to a survey of 10 groups of vulnerable workers conducted by CDRI during 1–15 November 2004, the daily earnings of cyclo drivers, rice field workers and moto taxi drivers continued to drop, and of porters and construction workers registered a two-digit fall compared to the same period last year. In contrast, the daily earnings of five other groups (garment workers, waitresses, unskilled workers, small traders and scavengers) increased between 2 percent and 12.8 percent compared to CDRI's November 2003 survey. The average daily earnings of the 10 groups this year amounted to 7,800 riels per day, an increase of 2 percent compared to 7,600 riels per day in 2003.

The daily earnings of garment workers had the smallest increase—2 percent—amongst better off groups, reaching 10,200 riels (a five-quarter high). Although garment workers' daily earnings were the second highest amongst the sample groups, they usually work harder than other groups. For instance, hours worked, including overtime, amounted to an average of 56 hours per week, only four hours less than working hours reported by the International Labour Organisation in November 2001. (The report states: "*The number of hours worked by workers of either sex cannot exceed 8 hours per day, or 48 hours per week, overtime hours cannot exceed 2 hours per day and all workers shall be given in principle a day off on Sunday.*" In contrast to the survey in August 2004, in which 75 percent of garment workers interviewed said that factory activity had decreased, only 50 percent said so in November 2004. Garment workers' spending on food was nearly unchanged at 2,200 riels per day, compared to 2,124 riels in the previous survey.

An increase in the gasoline price has seriously affected moto taxi drivers' daily earnings (but there was no negative correlation between other groups' daily earnings and gasoline prices). Our past data indicated that, holding other factors constant, an in-

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crease of 1 percent in the gasoline price led to an average fall of moto taxi drivers' daily earnings of 0.48 percent (the correlation is statistically significant at the 10 percent level). In other words, a rise of the gasoline price of 100 riels causes a drop of 219.7 riels in moto taxi drivers' daily earnings. This suggestion was confirmed by the recent interview result, in which 65 percent of interviewees complained that the continuous rise in gasoline prices had made it more difficult to run their businesses. The daily earnings of moto taxi drivers fell to 9,500 riels in November 2004, compared to 10,000 riels in November 2003 and 9,700 riels in August 2004.

An increase in the gasoline price has seriously affected moto taxi drivers' daily earnings. A rise of the gasoline price of 100 riels causes a drop of 219.7 riels in their daily earnings.

The daily earnings of cyclo drivers and rice-field workers slid to 6,200 riels and 4,300 riels in November, a fall of 36.8 percent and 3.4 percent from November 2003, respectively. It is worth noting that the number of cyclo drivers increased significantly in recent months, reflecting a serious drought across the country. Ninety-seven percent of cyclo drivers interviewed verified that the number of cyclo drivers had increased compared to three months earlier. Out of 40 cyclo drivers, 25 percent were in debt by an average amount of 65,333 riels, with a monthly interest rate of 4.1 percent. Also, more than one-third of rice-field workers had loans averaging 95,454 riels (with a monthly interest rate of 11.5 percent), much more than in November 2003, when the figure was 60,833 riels (with an interest rate of 5.9 percent). This might imply that the less they earn, the more they borrow, regardless of the interest rate, particularly in Kompong Speu and Kandal provinces.

In November 2004, the daily earnings of small traders, scavengers, waitresses and unskilled workers went up by 10.4 percent, 12.8 percent, 3.7 percent and 4.8 percent over the same period last year. The survey showed that 18 percent of small traders spent more on transportation costs than on other expenses (e.g. food, rent, medical care). Nonetheless, an increase in gasoline prices seems to have no effect on their daily earnings, because the correlation between small traders' daily earnings and gasoline prices is positive at 0.607. During the same period, the price of food, beverages and tobacco in Phnom Penh fell by 0.9 percent from a month earlier, but rose by 8.8 percent compared to the same period last year, according to the National Institute of Statistics.

Since November 2000, the daily earnings of skilled construction workers have varied between 9,866 riels and 16,900 riels, largely reflecting an expansion in construction activities. In November 2004, their daily earnings fell significantly, by 21.9 percent to 13,200 riels, down from 16,900 riels in November 2003. Compared to the previous survey, they declined by 11.5 percent. Skilled construction workers reported spending about 3,662 riels per day for food, 20 percent (610 riels) more than in August 2004. Meanwhile, the National Institute of Statistics reported that the price of food, beverages and tobacco in Phnom Penh dropped by 3 percent between August and November 2004. This implies that there is room for skilled construction workers to maintain or improve their living conditions, with average daily earnings between 13,200 and 16,900 riels.

Prepared by Pon Dorina and Ouch Chantarany

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quarter. In the third quarter, consumer prices in China rose by 5.3 percent over a year earlier, mainly due to higher food prices. During the same period, inflation in Malaysia was still under control but prices rose at an annual rate of 1.4 percent, 0.2 percentage points faster than in the previous quarter.

In the third quarter, the US dollar continued to gain value against most major currencies, except for the euro and the South Korean won. The dollar appreciated against the yen for the fourth consecutive quarter, reaching 110 yen in the third quarter of 2004. Against the euro, the US dollar depreciated by 1.2 percent, to 0.82 euros during the third quarter of 2004. At the same time, the dollar strengthened by 2.4 percent over the previous quarter against the Thai baht, and it remained unchanged against the Singapore dollar, trading at S$1.70.

Commodity Prices in World Markets

After increasing for the second consecutive quarter, the price of first quality rice in the Bangkok International Market fell to $224.60/tonne in third quarter, a decrease of 4.7 percent from the second quarter. Similarly, the price of rubber and soybeans declined to $1,190.60/tonne and $163.77/tonne in the third quarter, down from $1,333.40 and $249.70 in the previous quarter, respectively. In contrast, the price of crude oil surged to a record high of $36.09/barrel in the third quarter. The reasons for higher crude oil price are complex, involving global demand, OPEC strategy and uncertainties in the Middle East.

Prepared by Tong Kimsun

Economy Watch—Indicators

Table 1. Private Investment Projects Approved, 1996–2004

	1996	1997	1998	1999	2000	2001	2002	2003		2004		
								Q3	Q4	Q1	Q2	Q3
	Number of investment projects*											
Total	300	136	140	96	96	188	37	17	15	15	19	20
Garment	144	48	84	44	52	76	15	12	6	11	9	11
	Registered capital (millions of dollars)											
Total	391.2	278	416.4	246.8	102.4	129.2	48.9	4.0	15.4	11.9	10.0	23.0
Garment	156.8	34.4	91.6	55.6	25.6	60	12.6	1.0	5.8	8.4	1.0	13.5
	Fixed assets (millions of dollars)											
Total	746.8	761.6	849.2	474	266.4	217.2	239.6	95.1	62.1	63.3	113.3	82.0
Garment	158.4	38.8	120.8	79.6	76.8	100	18.0	43.3	14.5	49.9	10.1	44.0

Source: Cambodian Investment Board (1995–2003)
** Including investment expansion projects*

Table 2. Construction Projects Approved in Phnom Penh 1996–2004

	1996	1997	1998	1999	2000	2001	2002	2003		2004		
								Q3	Q4	Q1	Q2	Q3
Mansions	205	179	143	136	111	108	159	25	48	52	47	57
Apartments	537	528	678	864	520	499	535	148	116	157	161	186
Other	116	117	132	74	64	57	75	17	22	20	29	33
Total	858	824	953	1074	695	664	769	190	186	229	237	276

Source: Department of Cadastre and Geography of the municipality of Phnom Penh

Table 3. Exports and Imports, 1996–2004

	1996	1997	1998	1999	2000	2001	2002	2003		2004		
								Q3	Q4	Q1	Q2	Q3
	Millions of dollars											
Total exports	387.1	493.4	784.4	941.1	1055.5	1267.0	1453.7	492.3	475.7	399.5	494.7	668.8
Of which: Garments	78.8	227.2	378	554	962.1	1201.0	1356.2	475.2	448.5	383.6	479.4	643.7
To US	0.4	107.2	74.1	486	714.1	840.9	943.8	303.2	298.2	255.8	306.3	387.6
To rest of the world	78.4	120	82	68	248.0	360.1	412.4	172.0	150.3	127.8	173.1	256.1
Agriculture	-	-	-	-	90.5	66.0	97.5	17.0	27.2	16.0	15.3	25.1
Rubber	-	-	-	-	29.6	25.9	29.7	10.0	12.1	8.0	6.6	11.6
Wood	-	-	-	-	32.5	22.3	16.0	2.1	2.4	1.8	2.8	4.2
Fisheries	-	-	-	-	5.4	6.0	4.3	0.6	0.7	0.8	1.2	4.3
Other	-	-	-	-	26.0	11.8	47.5	4.3	12.0	5.4	4.8	5.0
Total Imports	1114.4	1094.5	1112.2	1237.4	1417.7	1501.4	1674.1	436.2	487.6	458.8	607	528
Of which: Gasoline	-	-	-	-	-	-	26	5.8	9.0	7.1	8.6	6.6
Diesel	-	-	-	-	-	-	102	25.7	24.5	30.4	27.7	27.4
Construction materials	-	-	-	-	-	-	97.4	17	21.6	20.2	27	21.3
Other	-	-	-	-	-	-	1448.7	387.8	432.5	401.1	543.6	472.7
Trade Balance	-727.3	-601.2	-327.8	-296.3	-362.2	-234.0	-220.4	56.1	-11.9	-59.3	-112.2	140.8
	Percentage change over previous year											
Total Exports Garments	198	188	66	47	74	24.8	12.9	10.1	16.4	21.9	22.9	35.5
Total Exports	2.1	27.5	58.9	12.4	19.7	20	14.7	9.0	15.2	20.5	21.1	35.8
Total Imports	1.2	-1.8	1.6	11.3	14.5	5.9	11.5	-10.0	19.6	16.5	19.6	21.0

Source: Ministry of Commerce, Department of Trade Preferences Systems and Customs and Excise Department

Table 4. Visitor Arrivals in Cambodia, 1996–2004

	1996	1997	1998	1999	2000	2001	2002	2003		2004		
								Q3	Q4	Q1	Q2	Q3
	Thousands of passengers											
Tourist visas	194.4	163.0	141.9	199.6	209.6	335.4	447.4	132.0	209.1	230.7	165.3	203.1
by air	194.4	163.0	141.9	199.6	209.6	335.4	447.4	76.2	131.3	139.6	99.6	125.1
land and boat	-	-	-	-	-	-	-	55.8	77.7	91.1	65.8	78.0
Business visas	58.4	48.6	37.6	55.4	46.9	62.4	58.3	20.3	15.5	15.8	20.8	17.2
by air	58.4	48.6	37.6	55.4	46.9	62.4	58.3	16.3	15.5	11.5	16.9	12.4
land and boat	-	-	-	-	-	-	-	4.0	-	4.3	3.9	4.8
Official visas	7.6	7.2	6.8	7.9	95.2	10.6	17.3	5.9	6.1	7.9	7.6	7.6
by air	7.6	7.2	6.8	7.9	95.2	10.6	17.3	5.1	6.1	6.8	6.3	6.4
land and boat	-	-	-	-	-	-	-	0.8	-	1.1	1.3	1.2
Total by air			186.3	262.9	351.7	408.4	523.0	97.6	152.9	157.9	122.8	143.9
Total Land and boat	-	-	100..2	104.8	114.7	196.5	263.5	60.6	77.7	96.5	71.0	84.1
Grand total	260.4	218.8	286.5	367.7	466.4	604.9	786.5	158.2	230.6	254.4	193.8	227.9
	Percentage change over previous year											
Grand total	18.5	-15.9	30.9	28.3	26.8	29.7	30	-8.9	-14.2	21.8	87.9	44.1

Sources: Ministry of Tourism

Economy Watch—Indicators

Table 5. Consumer Price Index (CPI), Exchange Rates and Gold Prices, 1996–2004 (period averages)

	1996	1997	1998	1999	2000	2001	2002	2003		2004		
								Q3	Q4	Q1	Q2	Q3
	Consumer price index (percentage change over previous year)											
Provinces	-	6.1	16.3	6.2	5.4	0.9	0.3	-1.9	1.8	4.6	11.5	21.1
Phnom Penh - All Items	7.1	8.0	14.8	4.0	-0.8	-0.6	3.3	0.8	0.5	0.8	2.2	6.7
- Foods	7.6	6.7	14.1	7.6	-3.3	-2.8	1.8	1.5	-0.04	0.6	3.4	12.2
- Energy	20.7	20.0	15.1	3.5	6.6	-1.1	0.3	5.1	5.1	4.8	8.1	11.5
	Exchange rates, gold and oil prices (Phnom Penh market rates)											
Riels per US dollar	2,666	3,029	3824	3832	3,879	3,935	3,926	4015	3999	3991	4016.5	4060
Riels per Thai baht	105	98	88	101	96.3	88	91.3	96.9	100.5	101.9	100.5	98.9
Riels per 100 Vietnamese dong	24.0	25.6	28.6	27.8	27.4	26.6	25.7	24.9	24.8	24.6	24.7	25.0
Gold prices (US dollar per chi)	46.3	40.4	36.0	34.0	33.3	32.7	36.8	41.5	44.4	46.0	46.0	46.3
Price of diesel (Riels/litre)	779	883	1,065	1,105	1,329	1,521	1508	1683	1700	1867	1983	2150
Price of gasoline (riels/litre)	1,118	1,378	1,613	1,760	2,113	2,084	2150	2367	2400	2567	2767	2950

Sources: CDRI, IMF, NIS, Ministry of Planning, Ministry of Economy and Finance

Table 6. Monetary Survey, 1996–2004 (end of period)

	1996	1997	1998	1999	2000	2001	2002	2003		2004		
								Q3	Q4*	Q1	Q2	Q3
	Billions of riels											
Net foreign assets	881	1,177	1,726	2,019	2,589	3,080	3737	3627	4027	4265	4337	4524
Net domestic assets	31	-114	-496	-576	-759	-876	-849	-621	-698	-606	-493	-354
Net claims on government	128	54	178	103	3	-75	-119	18	-128	-133	-130	-96
Credit to private sector	435	637	655	763	898	936	1059	1287	1337	1389	1499	1673
Total liquidity	912	1,063	1,230	1,443	1,831	2204	2888	3007	3328	3659	3844	4169
Money	329	385	543	531	540	609	813	886	937	1007	1040	1078
Quasi-money	583	678	687	911	1,291	1,594	2075	2121	2391	2652	2804	3091
	Percentage change from previous year											
Total liquidity	40.3	16.6	15.7	17.3	26.9	20.4	31.0	9.3	15.2	21.8	30.2	38.7
Money	18.3	17	41	-2.2	1.7	12.8	33.5	14.9	15.3	21.5	17.4	21.7
Quasi-money	57.1	16.3	1.3	32.6	41.7	23.5	30.2	7.1	15.2	21.9	36.7	45.7

*Source: National Bank of Cambodia, * Q4 2003 revised.*

Table 7. National Budget Operations on Cash Basis, 1996–2004 (billion riels)

	1996	1997	1998	1999	2000	2001	2002*	2003*		2004*		
								Q3	Q4	Q1	Q2	Q3
Total revenue	748	880	920	1326	1528	1529	1744	401	557	523.9	488.6	452.1
Current revenue	-	-	-	-	-	1521	1728	399	557	523.3	475.6	450.8
Tax revenue	536	596	676	956	1096	1096	1227	273	387	409.3	348.4	334.1
Customs duties	344	348	376	432	376	376	424	92	117	137	108.4	99.9
Non-tax revenue	176	272	204	348	424	424	501	126	170	113.9	127.1	116.7
Forest exploitation	28	36	20	36	28	29	15	4	1	0.9	0.3	0.2
Post & telecommunications	64	84	88	108	124	122	123	33	50	16.1	23.1	28.8
Capital revenue	40	12	36	12	8	9	16	1	0	0.6	13.0	1.3
Total expenditure	1440	1260	1296	1792	2332	2332	2948	683	746	647.1	668.7	659.2
Capital expenditure	628	452	368	624	976	977	1388	301	306	295.6	295.4	233.2
Current expenditure	812	808	980	1164	1356	1355	1560	382	440	351.5	373.3	426.0
Education and health	124	128	132	280	344	343	454	122	227	31.4	80.6	116.0
Defense and security	408	420	448	464	404	405	438	75	147	67.6	66.0	91.5
Other ministries	284	260	332	412	636	637	668	184	65	252.6	226.7	218.6
Overall deficit	-692	-380	-380	-476	-804	-803	-1204	-282	-189	-123.2	-180.2	-207.1
Foreign financing	680	444	268	416	768	766	1249	251	295	-223	195.4	171.8
Domestic financing	12	-64	112	60	36	37	-45	31	-106	99.8	-15.2	35.3

*Source: Ministry of Economy and Finance. * 2002, Q2, Q3, Q4, 2003, revised, and Q1-Q3 2004 provisional*

Table 8. Average Daily Earnings of Vulnerable Workers, 1997–2004

	Daily earnings (riels)									Change from last year (%)		
	1997	2003				2004				2004		
	Pre-Jul	Feb	May	Aug	Nov	Feb-04	May-04	Aug	Nov	May	Aug	Nov
Cyclo drivers	12,250	9,200	7,000	9,380	9,817	9,500	8,425	8,420	6,200	20.36	-10.25	-36.8
Porters	9,675	7,600	6,225	7,240	6,500	8,700	7,847	7,310	5,600	26.06	0.91	-13.8
Small vegetable sellers	7,050	7,250	6,162	6,860	6,700	7,400	7,625	7,337	7,400	23.74	6.95	10.4
Scavengers	4,155	3,875	3,605	4,900	3,900	4,800	4,600	5,262	4,400	27.60	7.17	12.8
Waitresses*	–	4,600	4,380	4,520	4,435	4,900	4,500	5,065	4,600	2.74	12.01	3.7
Rice-field workers	–	4,180	3,712	4,600	4,450	4,700	4,300	4,380	4,300	15.84	-4.78	-3.4
Garment workers	–	10,127	9,123	10,300	10000	9,675	9,740	10,163	10,200	6.76	-1.33	2.0
Motorcycle-taxi drivers	–	11,400	9372	10900	10000	11,200	9,000	9,700	9,500	-3.97	-11.01	-5.0
Unskilled construction workers	–	6,162	7100	7600	6200	7,200	6,900	6,725	6,500	-3.16	-11.73	4.8
Skilled construction workers	–	12,500	12,050	12,700	16,900	13,800	12,450	14,925	13,200	3.32	17.52	-21.9

*The surveys on the revenue of waitresses, rice-field workers, garment workers, unskilled workers, motorcycle taxi drivers and construction workers began in February 2000; * Waitresses' earnings do not include meals and accommodation provided by shop owners. Source: CDRI*

Continued from page 20 ***Update***

CDRI researchers have participated in a number of regional workshops, e.g. in Bangkok on Moving out of Poverty and Trade Capacity Building Needs and in Laos on Economic Integration and SMEs and the Cross Border Economy.

Geographic Information System (GIS) at CDRI

GIS was established at CDRI in October 2004 with the aim to develop an information management framework that facilitates data analysis by integrating standard statistical software (e.g., Excel, dBase, SPSS) with GIS (i.e., mapping) technology.

Many CDRI staff are already advanced in their command of statistical applications for analysing large data sets. This analytic capacity can be further enhanced using GIS technology to visually display the same data within a geographic framework (e.g., by province, district, commune and village). The presentation of data in reports or seminars can also be improved by using maps.

The GIS capacity-building exercise included constructing maps using poverty data from the commune council data set and data from a World Food Programme (WFP) survey. The exercises have had several practical applications:

- These maps have already been used to identify potential communes and villages within the targeted study area of CDRI's Participatory Poverty Assessment (PPA) in the Tonle Sap region. This will be helpful in site selection as well as disseminating research findings.
- Additional maps have been designed to identify land use patterns in Phnom Penh municipality, where CDRI will soon begin the second phase of its Baseline Survey Project. This will be helpful in site selection.
- The Baseline Survey Project is also trying to obtain village level plot boundaries in order to help analyse land markets and land use patterns in rural areas.

All CDRI research projects now use the standardised reference codes for each administrative level and unit for Cambodia. This enables researchers to visually analyse their research data and integrate or link various data sets with one another by using the appropriate administrative codes. It also enables researchers to prepare better visual references and more informative presentations of their research activities.

Centre for Peace and Development

In November, the training team conducted a two-day follow up workshop on Experience Sharing from Community Peace Building, with 24 participants who were from the ministries of Interior and Agriculture, a district deputy of Veal Veng, two commune councillors of Samlot district and other staff of NGOs from three provinces/cities.

In response to a request from district authorities, CPD conducted an additional course on Advanced Skills for Peace and Development in Veal Veng district, Pursat province, in December, after a needs assessment had been held in November. This was the first time that the team had provided three courses in one area for strengthening capacity of local authorities. The participants of the workshop were selected from the first and second workshops, which were held in February and May 2004. To support training activities, a Peacebuilding Lexicon was published and launched in November.

CDRI Update

Management

CDRI's annual full Board of Directors meeting was held on 3–4 December 2004. The board commended CDRI management and staff for a smooth leadership transition and a year of growth and achievement, with strong programme and financial outcomes. The board strongly endorsed the progress to date in implementation of CDRI's "Cambodianisation" process, including the creation of career paths for Cambodian staff, the abolition of expatriate programme manager positions and creation of opportunities for management and leadership roles for senior Cambodian staff and a more systematic approach to professional and institutional capacity development. The board also endorsed a process and timetable for the development of CDRI's next five-year Strategic Plan for 2006–10. CDRI would like to express its gratitude to three longstanding board members, whose terms expired at this meeting—Dr Luise Ahrens, Dr Dharam Ghai, and Mr Joel Charny—for their support and service.

In late December 2004 CDRI hosted a visit by the President and Board of Governors of the Canadian government funded International Development Research Centre (IDRC). The visit included a roundtable discussion of current Cambodian development issues with development researchers, practitioners and policy makers from various Cambodian organisations, and dinner and breakfast discussions with three CDRI board members, Her Excellency Dr Ing Kantha Phavi, Minister for Women's Affairs, His Excellency Sok Siphana, Secretary of State for Commerce, and His Excellency Dr Hang Chuon Naron, Secretary General of the Ministry of Economy and Finance. CDRI is involved in a range of IDRC-supported development research and policy partnerships.

In February 2005, following its successful partnership building delegation to Europe in September 2004, CDRI signed a memorandum of understanding with the Danish Centre for Forest, Landscape and Planning Cooperation on research collaboration and capacity development in support of CDRI's Natural Resources and Environment (NRE) programme, focusing on forestry management and governance. CDRI soon after also hosted a visit by a delegation from the University of Sydney, coordinated by its Research Institute for Asia and the Pacific (RIAP), to explore a new partnership on NRE management-related governance and rural livelihood issues. This partnership will be explored further in the first half of 2005.

Following consultations with key stakeholders in CDRI's Conflict Prevention in Cambodian Elections (COPCEL) process, COPCEL will be refreshed and revived in 2005, with the support of the United Nations Development Programme, to operate through to the commune council elections in 2007 and national elections in 2008. Mr Ok Serei Sopheak, consultant to CDRI and its Centre for Peace and Development, will continue as COPCEL facilitator.

Research

The October–December 2004 period was a very busy one for CDRI, with a number of studies being concluded and major new ones initiated. Studies that were finalised include the Cross Border Economies of Cambodia, Thailand, Laos and Vietnam; the Cambodia Annual Economic Review; Small and Medium Enterprises; High Value Forests and Poverty; Study on Accountability of the Commune/Sangkat Councils; and Study on Local Government Own-Source Revenues. New studies initiated include Participatory Poverty Assessment of the Tonle Sap; Service Delivery at the Commune Level; and Capacity Building Needs of Development Studies Institutes in Trade Policy Research.

A number of dissemination workshops were also held, including on Community-Based Poverty Monitoring Systems; Agricultural Competitiveness of Non-Rice Crops in Cambodia, Thailand, Vietnam and Laos; and High Value Forests.

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